

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 		Printed Name		License Number

City of Clio, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Clio, Michigan

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Independent Auditor's Report

To the Board of Commissioners
City of Clio, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clio (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



A worldwide association of independent accounting firms

To the Board of Commissioners
City of Clio, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 28, 2006

City of Clio, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Clio's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Legal services were approximately \$12,000 under the original budget. The City has delayed work on the personnel policy and is currently doing preliminary work on updating the City's master plan.
- The office of the city clerk was approximately \$12,000 under the original budget because of reduced staffing, saving in part-time wages.
- The City's municipal building and grounds were approximately \$11,000 over the original budget due to resurfacing the City Hall parking lot. The City was awarded a grant for this project but the expense shows in this department.
- The parks department was approximately \$17,000 over the original budget due to the expenses of the amphitheater, equipment purchased, energy utilities, and water utilities; professional services were not budgeted for, but due to the amphitheater bankruptcy, the City assumed responsibility for them.
- The police department was approximately \$30,500 under the original budget due to full-time officer wages, security wages, part-time wages, and a conscious effort to keep overtime and general expenses low.
- The above departments' savings and overages helped the City to gain in fund balance by approximately \$57,000, leaving a starting balance of approximately \$255,500 for the fiscal year 2006-2007.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date as compared to the prior year amounts (in thousands of dollars).

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 1,079	\$ 1,008	\$ 753	\$ 1,237	\$ 1,832	\$ 2,245
Noncurrent assets	<u>1,924</u>	<u>1,987</u>	<u>1,884</u>	<u>1,870</u>	<u>3,808</u>	<u>3,857</u>
Total assets	3,003	2,995	2,637	3,107	5,640	6,102
Liabilities						
Current liabilities	152	158	147	569	299	727
Long-term liabilities	<u>575</u>	<u>641</u>	<u>1,355</u>	<u>1,440</u>	<u>1,930</u>	<u>2,081</u>
Total liabilities	<u>727</u>	<u>799</u>	<u>1,502</u>	<u>2,009</u>	<u>2,229</u>	<u>2,808</u>
Net Assets						
Invested in capital assets -						
Net of related debt	1,419	1,418	539	497	1,958	1,915
Restricted	287	431	-	-	287	431
Unrestricted	<u>570</u>	<u>347</u>	<u>596</u>	<u>601</u>	<u>1,166</u>	<u>948</u>
Total net assets	<u>\$ 2,276</u>	<u>\$ 2,196</u>	<u>\$ 1,135</u>	<u>\$ 1,098</u>	<u>\$ 3,411</u>	<u>\$ 3,294</u>

The City's combined net assets increased approximately 4 percent from last year.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year as compared with the prior year (in thousands of dollars).

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 196	\$ 227	\$ 955	\$ 969	\$ 1,151	\$ 1,196
Operating grants and contributions	185	184	-	-	185	184
Capital grants and contributions	28	330	-	-	28	330
General revenue:						
Property taxes	816	785	-	-	816	785
State-shared revenue	290	348	-	-	290	348
Unrestricted investment earnings	35	25	27	14	62	39
Franchise fees	25	23	-	-	25	23
Miscellaneous	31	24	1	-	32	24
Total revenue	1,606	1,946	983	983	2,589	2,929
Program Expenses						
General government	393	412	-	-	393	412
Public safety	595	630	-	-	595	630
Public works	173	178	-	-	173	178
Highways and streets	198	158	-	-	198	158
Community and economic development	9	11	-	-	9	11
Recreation and culture	125	118	-	-	125	118
Interest on long-term debt	33	37	1	-	34	37
Water	-	-	560	511	560	511
Sewer	-	-	386	400	386	400
Total program expenses	1,526	1,544	947	911	2,473	2,455
Change in Net Assets	\$ 80	\$ 402	\$ 36	\$ 72	\$ 116	\$ 474

Governmental Activities

Overall, the net assets increased during the current year by approximately \$80,000, vs. \$402,000 in the prior year, in large part due to decreased capital project activity in the 2005-2006 fiscal year. The City will resume Center Street water and road work at the beginning of the 2006-2007 fiscal year.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a County-owned and operated sewage treatment plant. We added approximately \$36,000 into fund balance in the Sewer and Water Funds, which is about \$30,000 short of our target for our future capital asset projects we collect for in our rates. This is due to lower than anticipated water sales.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The city commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, the Major Streets Fund, the Local Streets Fund, and the Public Improvement Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government and public safety, which incurred expenses in excess of \$988,000 in 2006. General Fund activities include the cost of day-to-day operations to run the City. In addition, the City Commission, city administrator, city clerk, and city treasurer departments, as well as planning and assessing, are part of the General Fund activities. Public safety consists of police protection and the City's contribution to the Clio Area Fire Authority. With total expenses for the General Fund at approximately \$1,217,000, you can see that these two activities make up a major portion of the total.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were to increase the parks department and appropriated transfers out, and decrease the legal services, clerk's department, police department, and bike path expenses. The General Fund overall was approximately \$52,000 under its original budget in expenses, and due to a slight increase in revenue over the original budget, the General Fund fund balance will increase by approximately \$58,000.

Capital Asset and Debt Administration

At the end of 2005, the City had approximately \$3,858,000 invested in a broad range of capital assets, including buildings, police and DPS equipment, and water and sewer lines. In 2006, the City had minimal investment into new capital assets. The beginning of the 2006-2007 fiscal year sees the City completing construction of Center St. road and Center St. water line projects and Oak St. water line beginning in late fall of 2006 or early spring of 2007.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze in state revenue sharing but a slight increase in overall revenue. This is due to higher unit operating millage value compared to the previous year. The budget also reflects a slight increase in cost due to yearly wage increases in contracts with the department of public services and police department unions and inflation. We have budgeted money for capital improvements in the Smith St. Park, Oak St. water line, and the new DPS garage. The City continues to express caution to each department head in regard to expenses.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city administrator's office.

City of Clio, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash (Note 3)	\$ 789,612	\$ 546,716	\$ 1,336,328	\$ 45,359
Due from other governmental units	114,705	-	114,705	-
Receivables:				
Customers	-	111,056	111,056	-
Special assessments	21,140	-	21,140	-
Other	17,584	-	17,584	-
Restricted assets - Unspent bond proceeds (Note 8)	136,228	95,271	231,499	-
Capital assets - Net (Note 5):				
Nondepreciated	525,545	-	525,545	169,800
Depreciated	1,398,393	1,884,390	3,282,783	-
Total assets	3,003,207	2,637,433	5,640,640	215,159
Liabilities				
Accounts payable	45,921	43,743	89,664	3,013
Due to other governmental units	1,909	-	1,909	-
Accrued and other liabilities	35,379	18,307	53,686	-
Deferred revenue	-	-	-	-
Noncurrent liabilities (Note 7):				
Due within one year	68,574	85,000	153,574	-
Due in more than one year	575,277	1,355,000	1,930,277	-
Total liabilities	727,060	1,502,050	2,229,110	3,013
Net Assets				
Invested in capital assets - Net of related debt	1,419,279	539,661	1,958,940	169,800
Restricted:				
Streets and highways	173,878	-	173,878	-
Park and other equipment	5,614	-	5,614	-
Debt service	79,132	-	79,132	-
Program education	19,238	-	19,238	-
Sanitation collection	8,732	-	8,732	-
Unrestricted	570,274	595,722	1,165,996	42,346
Total net assets	<u>\$ 2,276,147</u>	<u>\$ 1,135,383</u>	<u>\$ 3,411,530</u>	<u>\$ 212,146</u>

City of Clio, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 392,568	\$ 3,154	\$ 1,423	\$ -
Public safety	595,063	61,538	6,522	-
Public works	172,819	102,082	-	-
Highways and streets	198,470	600	176,937	26,604
Community and economic development	8,754	25,835	-	-
Recreation and culture	124,856	2,970	-	1,315
Interest on long-term debt	33,302	-	-	-
Total governmental activities	1,525,832	196,179	184,882	27,919
Business-type activities:				
Water	559,726	531,796	-	-
Sewer	386,414	423,492	-	-
Total business-type activities	946,140	955,288	-	-
Total primary government	<u>\$ 2,471,972</u>	<u>\$ 1,151,467</u>	<u>\$ 184,882</u>	<u>\$ 27,919</u>
Component unit - Downtown Development Authority	<u>\$ 9,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Unrestricted investment earnings
Franchise fees
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (387,991)	\$ -	\$ (387,991)	\$ -
(527,003)	-	(527,003)	-
(70,737)	-	(70,737)	-
5,671	-	5,671	-
17,081	-	17,081	-
(120,571)	-	(120,571)	-
(33,302)	-	(33,302)	-
(1,116,852)	-	(1,116,852)	-
-	(27,930)	(27,930)	-
-	37,078	37,078	-
-	9,148	9,148	-
(1,116,852)	9,148	(1,107,704)	-
-	-	-	(9,808)
816,335	-	816,335	18,066
289,543	-	289,543	-
35,452	27,321	62,773	1,395
24,957	-	24,957	-
30,320	-	30,320	-
1,196,607	27,321	1,223,928	19,461
79,755	36,469	116,224	9,653
2,196,392	1,098,914	3,295,306	202,493
\$ 2,276,147	\$ 1,135,383	\$ 3,411,530	\$ 212,146

City of Clio, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Major Funds				Other Non-	Total
	General	Major Streets	Local Streets	Public	major	Total
	Fund	Fund	Fund	Improvements	Governmental	Governmental
				Fund	Funds	Funds
Assets						
Cash (Note 3)	\$ 287,150	\$ 123,431	\$ 31,888	\$ 247,594	\$ 86,152	\$ 776,215
Due from other funds (Note 6)	-	-	-	11,421	-	11,421
Due from other governmental units	31,256	21,383	6,256	-	-	58,895
Receivables:						
Special assessments	-	-	-	-	21,140	21,140
Other	15,029	-	-	-	-	15,029
Restricted assets - Unspent bond proceeds	-	-	-	-	136,228	136,228
Total assets	\$ 333,435	\$ 144,814	\$ 38,144	\$ 259,015	\$ 243,520	\$ 1,018,928
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 38,409	\$ 6,749	\$ -	\$ -	\$ -	\$ 45,158
Due to other funds	11,421	-	-	-	-	11,421
Due to other governmental units	1,909	-	-	-	-	1,909
Accrued and other liabilities	25,340	463	1,868	-	190	27,861
Deferred revenue (Note 4)	-	-	-	-	21,140	21,140
Total liabilities	77,079	7,212	1,868	-	21,330	107,489
Fund Balances						
Reserved for parks and park improvements	5,440	-	-	-	-	5,440
Reserved for police equipment	174	-	-	-	-	174
Unreserved - Reported in:						
General Fund	250,742	-	-	-	-	250,742
Special Revenue Funds	-	137,602	36,276	259,015	27,970	460,863
Debt Service Funds	-	-	-	-	57,992	57,992
Capital Projects Funds	-	-	-	-	136,228	136,228
Total fund balances	256,356	137,602	36,276	259,015	222,190	911,439
Total liabilities and fund balances	\$ 333,435	\$ 144,814	\$ 38,144	\$ 259,015	\$ 243,520	\$ 1,018,928

City of Clio, Michigan

Governmental Funds Reconciliation of Fund Balance of Governmental Funds to the Statement of Net Assets June 30, 2006

Total Fund Balance of Governmental Funds	\$ 911,439
Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,872,528
Revenue-sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	55,810
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	21,140
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(627,964)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,306)
Internal Service Fund is included as part of governmental activities	<u>50,500</u>
Net Assets of Governmental Activities	<u>\$ 2,276,147</u>

City of Clio, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Major Funds					
	General Fund	Major Streets Fund	Local Streets Fund	Public Improvements Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 816,335	\$ -	\$ -	\$ -	\$ -	\$ 816,335
Licenses and permits	1,367	-	-	-	-	1,367
Federal sources	-	-	-	-	26,304	26,304
State sources	288,899	139,349	37,888	-	-	466,136
Charges for services	33,007	-	600	-	101,082	134,689
Fines and forfeitures	58,438	-	-	-	-	58,438
Interest	11,883	4,290	866	8,674	9,715	35,428
Other	65,211	326	326	-	5,543	71,406
Total revenue	1,275,140	143,965	39,680	8,674	142,644	1,610,103
Expenditures						
General government	357,263	16,432	13,425	-	-	387,120
Public safety	594,725	-	-	-	-	594,725
Public works	103,142	-	-	-	106,289	209,431
Highway and streets	-	56,661	34,163	-	34,041	124,865
Recreation and cultural	101,150	-	-	-	-	101,150
Civic buildings	8,754	-	-	-	-	8,754
Debt service	4,504	67,430	8,680	-	10,695	91,309
Total expenditures	1,169,538	140,523	56,268	-	151,025	1,517,354
Excess of Revenue Over (Under) Expenditures	105,602	3,442	(16,588)	8,674	(8,381)	92,749
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	7,905	14,499	-	-	22,404
Transfers out (Note 6)	(47,766)	(5,750)	-	-	-	(53,516)
Total other financing sources (uses)	(47,766)	2,155	14,499	-	-	(31,112)
Net Change in Fund Balances	57,836	5,597	(2,089)	8,674	(8,381)	61,637
Fund Balances - Beginning of year	198,520	132,005	38,365	250,341	230,571	849,802
Fund Balances - End of year	\$ 256,356	\$ 137,602	\$ 36,276	\$ 259,015	\$ 222,190	\$ 911,439

City of Clio, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 61,637
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(22,806)
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Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds (GASB No. 33)	644
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(4,755)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	58,165
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Changes in accumulated employee vacation pay are recorded when earned in the statement of activities	590
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Internal Service Funds are also included as governmental activities	<u>(13,720)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 79,755</u>
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City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Net Assets June 30, 2006

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Total	
Assets				
Cash (Note 3)	\$ 348,628	\$ 198,088	\$ 546,716	\$ 13,397
Receivables:				
Customer	63,007	48,049	111,056	-
Other	-	-	-	2,555
Restricted assets - Unspent bond proceeds	46,105	49,166	95,271	-
Capital assets - Net - Depreciated (Note 5)	1,523,087	361,303	1,884,390	51,410
Total assets	1,980,827	656,606	2,637,433	67,362
Liabilities				
Accounts payable	28,953	14,790	43,743	763
Accrued and other liabilities	12,098	6,209	18,307	212
Noncurrent liabilities (Note 7):				
Due within one year	69,839	15,161	85,000	5,610
Due in more than one year	1,170,042	184,958	1,355,000	10,277
Total liabilities	1,280,932	221,118	1,502,050	16,862
Net Assets				
Invested in capital assets - Net of related debt	329,311	210,350	539,661	35,523
Unrestricted	370,584	225,138	595,722	14,977
Total net assets	<u>\$ 699,895</u>	<u>\$ 435,488</u>	<u>\$ 1,135,383</u>	<u>\$ 50,500</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Operating Revenue				
Water sales	\$ 291,334	\$ -	\$ 291,334	\$ -
Sewage disposal	-	187,172	187,172	-
Ready to serve charges	207,915	232,799	440,714	-
Rental income	-	-	-	83,645
Other revenue	28,642	711	29,353	2,781
Total operating revenue	527,891	420,682	948,573	86,426
Operating Expenses				
Cost of water	216,176	-	216,176	-
Cost of sewage disposal	-	166,674	166,674	-
Operation and maintenance	249,940	172,952	422,892	89,166
Depreciation	45,664	34,628	80,292	40,840
Total operating expenses	511,780	374,254	886,034	130,006
Operating Income (Loss)	16,111	46,428	62,539	(43,580)
Nonoperating Revenue (Expense)				
Customer connection fees	3,905	2,810	6,715	-
Interest income	18,019	9,302	27,321	24
Interest expense	(47,946)	(12,160)	(60,106)	(1,276)
Total nonoperating expense	(26,022)	(48)	(26,070)	(1,252)
Income (Loss) Before Transfers	(9,911)	46,380	36,469	(44,832)
Transfers In (Note 6)	-	-	-	31,112
Change in Net Assets	(9,911)	46,380	36,469	(13,720)
Net Assets - Beginning of year	709,806	389,108	1,098,914	64,220
Net Assets - End of year	<u>\$ 699,895</u>	<u>\$ 435,488</u>	<u>\$ 1,135,383</u>	<u>\$ 50,500</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 504,861	\$ 425,097	\$ 929,958	\$ 81,090
Payments to suppliers	(763,150)	(270,982)	(1,034,132)	(87,968)
Payments to employees	(128,196)	(69,880)	(198,076)	(6,531)
Other receipts	28,642	711	29,353	2,781
Net cash provided by (used in) operating activities	(357,843)	84,946	(272,897)	(10,628)
Cash Flows from Capital and Related Financing Activities				
Benefit charges received from customers	3,905	2,810	6,715	-
Interfund activity related to capital items	-	-	-	31,112
Purchase of capital assets	(91,370)	(2,730)	(94,100)	-
Principal and interest paid on capital debt	(113,546)	(26,560)	(140,106)	(10,720)
Net cash provided by (used in) capital and related financing activities	(201,011)	(26,480)	(227,491)	20,392
Cash Flows from Investing Activities - Interest received on investments	18,019	9,302	27,321	24
Net Increase (Decrease) in Cash	(540,835)	67,768	(473,067)	9,788
Cash - Beginning of year	935,568	179,486	1,115,054	3,609
Cash - End of year	<u>\$ 394,733</u>	<u>\$ 247,254</u>	<u>\$ 641,987</u>	<u>\$ 13,397</u>
Balance Sheet Classification of Cash				
Cash	\$ 348,628	\$ 198,088	\$ 546,716	\$ 13,397
Restricted assets - Unspent bond proceeds	46,105	49,166	95,271	-
Total cash	<u>\$ 394,733</u>	<u>\$ 247,254</u>	<u>\$ 641,987</u>	<u>\$ 13,397</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows (Continued) Year Ended June 30, 2006

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 16,111	\$ 46,428	\$ 62,539	\$ (43,580)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	45,664	34,628	80,292	40,840
Changes in assets and liabilities:				
Receivables	5,612	5,126	10,738	(2,555)
Accounts payable	(424,924)	(1,335)	(426,259)	(2,803)
Accrued and other liabilities	(306)	99	(207)	(30)
Due to other funds	-	-	-	(2,500)
Net cash provided by (used in) operating activities	<u>\$ (357,843)</u>	<u>\$ 84,946</u>	<u>\$ (272,897)</u>	<u>\$ (10,628)</u>

Noncash Activities - During the year ended June 30, 2006, the City did not have any noncash transactions.

City of Clio, Michigan

Fiduciary Funds Agency Fund Statement of Assets and Liabilities June 30, 2006

Assets

Cash (Note 3)	\$ 28,229
Due from other governmental units	<u>1,061</u>

Total assets	<u><u>\$ 29,290</u></u>
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Liabilities - Other	<u><u>\$ 29,290</u></u>
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Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Clio (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Clio:

Reporting Entity

The City is governed by an elected seven-member commission (Board of Commissioners). As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Clio and its component unit, the Downtown Development Authority. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Downtown Development Authority (the "Authority") is reported within the component unit column in the statement of net assets and the statement of activities. It is reported in a separate column to emphasize that it is legally separate from the City. The Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, consisting of nine individuals, is selected by the City Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets and Local Streets Funds - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through state-shared revenue and miscellaneous local sources.

Public Improvements Fund - The Public Improvements Fund accounts for the development, construction, and improvements to various properties in the City, financed through various local sources.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Note I - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. These taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2005 taxable valuation of the City totaled approximately \$45,922,000, on which taxes levied consisted of 17.000 mills for operating purposes, resulting in approximately \$816,000 for the City, including various administrative fees and delinquent tax revenues.

In addition, the component unit's taxable value is approximately \$9,081,000 at a millage rate of 2 mills, resulting in taxes levied of approximately \$18,000 for its operations. This amount is recognized in the statement of activities as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Unspent bond proceeds of the Major Street Construction, Water, and Sewer Funds are required to be set aside for construction; therefore, they are classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowable under GASB Statement No. 34, the City has elected not to retroactively record infrastructure assets acquired prior to July 1, 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Buildings	50 years
Office and other equipment	3 to 10 years
Land improvements	15 years
Roads and sidewalks	20 years
Vehicles and related equipment	5 to 7 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Business-type activities:

Water and sewer transmission lines	50 years
Treatment facilities	7 to 35 years
Machinery and equipment	7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation benefits. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Clio, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. Fees for these services are collected by Vienna Township. Vienna Township remits 10 percent of the fees to the City; therefore, no direct costs were incurred during the year ended June 30, 2006 related to these activities. The City records the activities relating to the construction code in the General Fund. A summary of the current year activity, including an allocation of estimated overhead costs and cumulative shortfall, is as follows:

Shortfall at June 30, 2005	\$	(27,991)
Current year building permit revenue		937
Related expenses:		
Direct costs	\$	-
Estimated indirect costs		<u>2,200</u>
Total construction code expenses		<u>2,200</u>
Shortfall at June 30, 2006	\$	<u>(29,254)</u>

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all of the investment vehicles listed above. The deposits and investment policies are in accordance with statutory authority.

The City had no investments during the year ended June 30, 2006.

Note 3 - Deposits (Continued)

Custodial Credit Risk of Bank Deposits

The City's cash deposits are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,326,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

In addition, the component unit's cash deposits are subject to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk. At year end, all of the bank deposits were fully covered by the FDIC insurance.

Note 4 - Deferred Revenue

On the fund-based statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The total deferred revenue for governmental funds was unavailable at June 30, 2006. There was no unearned deferred revenue at June 30, 2006.

On the government-wide statements, since reporting is based on the full accrual basis of accounting, both governmental and business-type activities report only the amount of unearned revenue as deferred.

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Reclassifications	Additions	Disposals	Balance June 30, 2006
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 462,026	\$ -	\$ 7,920	\$ -	\$ 469,946
Construction in progress	714,765	(660,297)	1,131	-	55,599
Subtotal	1,176,791	(660,297)	9,051	-	525,545
Capital assets being depreciated:					
Buildings	689,419	-	16,579	-	705,998
Office and other equipment	412,356	-	101	-	412,457
Land improvements	18,850	-	-	-	18,850
Roads and sidewalks	169,025	660,297	32,911	-	862,233
Vehicles and related equipment	230,391	-	-	-	230,391
Subtotal	1,520,041	660,297	49,591	-	2,229,929
Accumulated depreciation:					
Buildings	284,264	-	13,396	-	297,660
Office and other equipment	242,960	-	37,837	-	280,797
Land improvements	2,514	-	1,257	-	3,771
Roads and sidewalks	16,903	-	41,728	-	58,631
Vehicles and related equipment	162,607	-	28,070	-	190,677
Subtotal	709,248	-	122,288	-	831,536
Net capital assets being depreciated	810,793	660,297	(72,697)	-	1,398,393
Net capital assets	<u>\$ 1,987,584</u>	<u>\$ -</u>	<u>\$ (63,646)</u>	<u>\$ -</u>	<u>\$ 1,923,938</u>
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ 61,046	\$ (61,046)	\$ -	\$ -	\$ -
Capital assets being depreciated:					
Water and sewer transmission lines	2,014,864	61,046	91,287	-	2,167,197
Treatment facilities	298,519	-	-	-	298,519
Machinery and equipment	170,291	-	2,813	-	173,104
Subtotal	2,483,674	61,046	94,100	-	2,638,820
Accumulated depreciation:					
Water and sewer transmission lines	405,658	-	43,115	-	448,773
Treatment facilities	198,887	-	12,448	-	211,335
Machinery and equipment	69,593	-	24,729	-	94,322
Subtotal	674,138	-	80,292	-	754,430
Net capital assets being depreciated	1,809,536	61,046	13,808	-	1,884,390
Net capital assets	<u>\$ 1,870,582</u>	<u>\$ -</u>	<u>\$ 13,808</u>	<u>\$ -</u>	<u>\$ 1,884,390</u>

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 7,554
Public safety	338
Public works	101
Highways and streets	41,729
Recreation and culture	31,726
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>40,840</u>

Total governmental activities \$ 122,288

Business-type activities:

Water	\$ 45,664
Sewer	<u>34,628</u>

Total business-type activities \$ 80,292

Construction Commitments - The City had total commitments of approximately \$78,000 related to street projects as of June 30, 2006. The related projects were started in July 2006 and the entire commitments were outstanding at year end.

The component units' capital assets consisted of land totaling \$169,800. There were no purchases or disposals during the year ended June 30, 2006.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Special Revenue Fund - Public Improvements Fund	General Fund	\$ 11,421

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund (2)	\$ 7,905
	Local Streets Fund (2)	8,749
	Internal Service Fund (1)	31,112
Total General Fund		47,766
Major Streets Fund	Local Streets Fund (2)	5,750
Total		\$ 53,516

(1) Transfer for capital improvements

(2) Transfer for general operations

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General Obligation Bonds:							
1998 Act 175 Bonds - Major Streets:							
Amount of issue: \$360,000	4.5% -						
Maturing through 2013	5.0%	\$25,000	\$ 200,000	\$ -	\$ (25,000)	\$ 175,000	\$ 25,000
2000 General Obligation Bonds:							
Amount of issue: \$85,000	5.3% -	\$5,000 -					
Maturing through 2015	7.0%	\$10,000	60,000	-	(5,000)	55,000	5,000
2004 General Obligation Bonds:							
Amount of issue: \$345,000	3.15% -	\$20,000 -					
Maturing through 2019	4.60%	\$30,000	325,000	-	(20,000)	305,000	20,000
Installment purchase agreements:							
Various equipment and auto agreements:							
Amount of issue: \$71,130	3.28% -	\$513 -					
Maturing through 2010	6.72%	\$3,203	25,331	-	(9,444)	15,887	5,610
2002 installment purchase agreements:							
Amount of issue: \$23,367							
Maturing through 2006	4.58%	\$3,165	3,165	-	(3,165)	-	-
2000 Special Assessment Bonds:							
Amount of issue: \$120,000	5.3% -	\$5,000 -					
Maturing through 2014	7.0%	\$10,000	95,000	-	(5,000)	90,000	10,000
Total bonds and installment purchase agreements			708,496	-	(67,609)	640,887	65,610
Accumulated compensated absences			3,554	-	(590)	2,964	2,964
Total governmental activities			\$ 712,050	\$ -	\$ (68,199)	\$ 643,851	\$ 68,574

City of Clio, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
2003 Capital Improvement Bonds:							
Amount of issue: \$640,000	3.934% -	\$35,000 -					
Maturing through 2018	4.60%	\$55,000	\$ 570,000	\$ -	\$ (35,000)	\$ 535,000	\$ 35,000
2005 Capital Improvement Bonds:							
Amount of issue: \$950,000	2.95% -	\$45,000 -					
Maturing through 2020	4.60%	\$85,000	950,000	-	(45,000)	905,000	50,000
Total business-type activities			<u>\$ 1,520,000</u>	<u>\$ -</u>	<u>\$ (80,000)</u>	<u>\$ 1,440,000</u>	<u>\$ 85,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 65,610	\$ 28,897	\$ 94,507	\$ 85,000	\$ 58,330	\$ 143,330
2008	65,970	25,858	91,828	85,000	55,703	140,703
2009	63,794	22,905	86,699	90,000	52,975	142,975
2010	60,513	20,107	80,620	95,000	49,970	144,970
2011	60,000	17,358	77,358	95,000	46,570	141,570
2012-2016	240,000	46,708	286,708	560,000	171,053	731,053
2017-2020	85,000	7,995	92,995	430,000	44,633	474,633
Total	<u>\$ 640,887</u>	<u>\$ 169,828</u>	<u>\$ 810,715</u>	<u>\$ 1,440,000</u>	<u>\$ 479,234</u>	<u>\$ 1,919,234</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts relate to unspent bond proceeds and related interest in the Major Street Construction, Water, and Sewer Funds. These amounts are required to be set aside for construction of various specific road improvements as well as water and sewer lines.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance relating to risks associated with property loss, torts, and errors and omissions, as well as medical benefits other than dental and optical coverage. The City participates in the Michigan Municipal League for claims relating to employee injuries (workers' compensation). The City is uninsured for employee dental and optical claims, for which the City reimburses each employee annually, up to a maximum of \$900 per employee. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Joint Ventures

The City is a member of Clio Area Fire Authority, which provides fire protection services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$46,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for Clio Area Fire Authority can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The City is a member of Clio Area Library, which provides library services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$6,300 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for Clio Area Library can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The investments in joint ventures are not recorded in the financial statements as the City does not hold a definable interest in either of the entities and would not be able to collect payment upon terminating the relationship.

Note 11 - Pension Plan

Plan Description - The City participates in the Michigan Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The City is required to contribute 10 percent of the covered salaries and wages, while the employees contributed any excess amounts as determined by the actuary (approximately 0.92 percent in 2005).

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$56,551 (employer and employee amount of \$51,787 and \$4,764, respectively) for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at August 1, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases (4.5 percent per year representing annual inflation), and (c) the assumption that benefits will increase 2.5 percent per year (annually) after retirement, for certain retirees. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30	
	2006	2005
Annual pension costs (APC)	\$ 56,551	\$ 43,625
Percentage of APC contributed	100%	100%
Net pension obligation	\$ -	\$ -

Note 11 - Pension Plan (Continued)

	December 31, 2005	August 1, 2004
Actuarial value of assets	\$ 310,596	\$ -
Actuarial accrued liability (AAL) (entry age)	574,738	403,570
Unfunded AAL (UAAL)	(264,142)	(403,570)
Funded ratio	54%	0%
Covered payroll	\$ 534,688	\$ 484,417
UAAL as a percentage of covered payroll	49%	83%

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The City pays the full cost of coverage for these benefits. Currently, two retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2006, the City made payments for postemployment health benefit premiums of approximately \$12,400. The City obtains health care coverage through private insurers.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<u>Revenue</u>				
Property taxes	\$ 823,174	\$ 808,831	\$ 816,335	\$ 7,504
State sources	291,922	291,049	288,899	(2,150)
Other sources	154,041	168,554	169,906	1,352
Total revenue	1,269,137	1,268,434	1,275,140	6,706
<u>Expenditures</u>				
General Government				
Office of the mayor	2,790	2,790	2,651	139
Board of Review	1,190	1,215	1,212	3
Commission	13,805	13,805	13,536	269
Elections	9,225	7,569	7,904	(335)
Assessor	19,920	21,654	21,660	(6)
Clerk	78,913	65,740	66,334	(594)
Treasurer	33,412	30,448	30,700	(252)
City Hall	69,720	78,471	78,862	(391)
City shop	16,419	14,156	14,357	(201)
Administration	75,965	71,717	72,067	(350)
Legal services	47,400	32,844	35,041	(2,197)
Retirement activities	13,708	14,076	12,939	1,137
Total general government	382,467	354,485	357,263	(2,778)
Public Safety				
Police	578,255	539,177	548,803	(9,626)
Fire	45,922	45,922	45,922	-
Inspection services	34,102	-	-	-
Total public safety	658,279	585,099	594,725	(9,626)
Public Works				
Mosquito control	396	-	-	-
Public service	60,929	57,218	57,455	(237)
Street lighting	34,551	34,551	36,713	(2,162)
Planning	10,337	6,804	7,893	(1,089)
Zoning	1,969	81	81	-
Storm water regulations	1,000	1,000	1,000	-
Total public works	109,182	99,654	103,142	(3,488)

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<u>Expenditures</u> (Continued)				
Recreation and Cultural				
Senior citizen programs	\$ 5,600	\$ 5,600	\$ 5,600	\$ -
Parks	53,244	66,271	70,700	(4,429)
Library	6,260	6,260	6,257	3
Bike path	17,121	9,432	18,593	(9,161)
Total recreation and cultural	82,225	87,563	101,150	(13,587)
Civic Buildings				
Roger's Lodge	10,431	8,468	8,584	(116)
500 South Mill Street	1,562	562	170	392
Total civic buildings	11,993	9,030	8,754	276
Debt Service	4,836	4,836	4,504	332
Operating Transfers Out	20,155	47,766	47,766	-
Total expenditures	1,269,137	1,188,433	1,217,304	(28,871)
Excess of Revenue Over Expenditures	-	80,001	57,836	<u>\$ (22,165)</u>
Fund Balance - Beginning of year	198,520	198,520	198,520	
Fund Balance - End of year	<u>\$ 198,520</u>	<u>\$ 278,521</u>	<u>\$ 256,356</u>	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 147,792	\$ 139,831	\$ 139,349	\$ (482)
Interest	1,200	3,970	4,290	320
Other revenue	-	325	326	1
Transfer in	6,200	7,905	7,905	-
Total revenues	155,192	152,031	151,870	(161)
Expenditures				
General government	19,223	16,761	16,432	329
Highways and streets	64,933	53,937	56,661	(2,724)
Debt service	67,520	67,520	67,430	90
Operating transfers out	3,516	5,750	5,750	-
Total expenditures	155,192	143,968	146,273	(2,305)
Excess of Revenue Over Expenditures	-	8,063	5,597	<u>\$ (2,466)</u>
Fund Balance - Beginning of year	<u>132,005</u>	<u>132,005</u>	<u>132,005</u>	
Fund Balance - End of year	<u>\$ 132,005</u>	<u>\$ 140,068</u>	<u>\$ 137,602</u>	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Streets Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 40,093	\$ 37,631	\$ 37,888	\$ 257
Charges for services	-	600	600	-
Interest	300	765	866	101
Other revenue	-	325	326	1
Operating transfers in	<u>11,193</u>	<u>14,499</u>	<u>14,499</u>	<u>-</u>
Total revenues	51,586	53,820	54,179	359
Expenditures				
General government	11,686	10,712	13,425	(2,713)
Highways and streets	31,220	29,466	34,163	(4,697)
Debt service	<u>8,680</u>	<u>8,680</u>	<u>8,680</u>	<u>-</u>
Total expenditures	<u>51,586</u>	<u>48,858</u>	<u>56,268</u>	<u>(7,410)</u>
Excess of Revenue Over (Under) Expenditures	-	4,962	(2,089)	<u>\$ (7,051)</u>
Fund Balance - Beginning of year	<u>38,365</u>	<u>38,365</u>	<u>38,365</u>	
Fund Balance - End of year	<u>\$ 38,365</u>	<u>\$ 43,327</u>	<u>\$ 36,276</u>	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Public Improvements Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Interest	\$ 340	\$ 776	\$ 8,674	\$ 7,898
Expenditures - General government	<u>340</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenue Over Expenditures	-	776	8,674	<u>\$ 7,898</u>
Fund Balance - Beginning of year	<u>241,871</u>	<u>250,341</u>	<u>250,341</u>	
Fund Balance - End of year	<u>\$ 241,871</u>	<u>\$ 251,117</u>	<u>\$ 259,015</u>	

City of Clio, Michigan

Note to Required Supplemental Information June 30, 2006

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." Unexpended appropriations lapse at year end.

The City follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The budget officer shall prepare and submit to the Commission, on or before the first regular meeting in April of each year, a budget document covering the next fiscal year tabulating the recommendations of several department heads and officials.
2. Not later than the third Monday of May, the Commission shall, by resolution, adopt the budget for the net fiscal year.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and each of the major Special Revenue Funds budgets as adopted by the City Commission is included in the required supplemental information. There was some expenditure budget overrun noted in the General, Major Streets, and Local Streets Funds in the current year, the most significant of which, relating to the General Fund's general government, public safety, public works, and recreation and culture, were a result of accruals at year end that were not reflected in the expenditure budgets. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City is available at the city clerk's office.

Other Supplemental Information

City of Clio, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	<u>Special Revenue Funds</u>				Total
	PEG	Sanitation Collection	Major Street Construction Fund	Special Assessment Debt Service	Nonmajor Governmental Funds
Assets					
Cash	\$ 19,238	\$ 8,922	\$ -	\$ 57,992	\$ 86,152
Receivables - Special assessments	-	-	-	21,140	21,140
Restricted assets - Unspent bond proceeds	-	-	136,228	-	136,228
Total assets	<u>\$ 19,238</u>	<u>\$ 8,922</u>	<u>\$ 136,228</u>	<u>\$ 79,132</u>	<u>\$ 243,520</u>
Liabilities and Fund Balances					
Liabilities					
Accrued and other liabilities	\$ -	\$ 190	\$ -	\$ -	\$ 190
Deferred revenue	-	-	-	21,140	21,140
Total liabilities	-	190	-	21,140	21,330
Fund Balances - Unreserved and undesignated	<u>19,238</u>	<u>8,732</u>	<u>136,228</u>	<u>57,992</u>	<u>222,190</u>
Total liabilities and fund balances	<u>\$ 19,238</u>	<u>\$ 8,922</u>	<u>\$ 136,228</u>	<u>\$ 79,132</u>	<u>\$ 243,520</u>

City of Clio, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	<u>Special Revenue Funds</u>				Total
	PEG	Sanitation Collection	Major Street Construction Fund	Special Assessment Debt Service	Nonmajor Governmental Funds
Revenue					
Federal sources	\$ -	\$ -	\$ 26,304	\$ -	\$ 26,304
Charges for services	-	101,082	-	-	101,082
Interest	684	-	5,036	3,995	9,715
Other	<u>1,475</u>	<u>-</u>	<u>-</u>	<u>4,068</u>	<u>5,543</u>
Total revenue	2,159	101,082	31,340	8,063	142,644
Expenditures					
Public works	-	106,289	-	-	106,289
Highway and streets	-	-	34,041	-	34,041
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,695</u>	<u>10,695</u>
Total expenditures	<u>-</u>	<u>106,289</u>	<u>34,041</u>	<u>10,695</u>	<u>151,025</u>
Net Change in Fund Balances	2,159	(5,207)	(2,701)	(2,632)	(8,381)
Fund Balances - Beginning of year	<u>17,079</u>	<u>13,939</u>	<u>138,929</u>	<u>60,624</u>	<u>230,571</u>
Fund Balances - End of year	<u><u>\$ 19,238</u></u>	<u><u>\$ 8,732</u></u>	<u><u>\$ 136,228</u></u>	<u><u>\$ 57,992</u></u>	<u><u>\$ 222,190</u></u>

September 28, 2006

Honorable Mayor and Members
of the City Commission
City of Clio
505 West Vienna Street
Clio, Michigan 48420

Dear Mayor and Commission Members:

We recently completed our audit of the basic financial statements of the City of Clio for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

WATER LOSS

During our analytical review of the Water Fund, we noted an increase in the City's calculated water loss, i.e., the amount of water pumped into the mains but not sold to customers.

Water loss can be caused by several factors, including municipal and hydrant use, water mains breaking, inaccurate meters or billing problems. We suggest that this situation be reviewed and analyzed to determine if action can be taken at this time to reduce future losses. Some possible specific actions the city could take to identify the source of the water loss may include:

- Performing testing on accuracy of master meters
- Comparing water loss by billing district or month to identify the greatest area of loss
- Identifying leaking water mains
- Performing testing on a sample of customer meters to determine reading accuracy
- Evaluating meter reading accuracy and estimated billing procedures

The above items are primarily to assist you in retrospectively isolating possible causes of the increase in water loss. It would also be important to develop and implement procedures to monitor water loss on an ongoing basis.

JOURNAL ENTRIES

During our testing of manual journal entries, we noted that the city's accounting system does not assign a unique sequence of transaction numbers to manual journal entries. We recommend that the City determine whether it is possible to configure the system to assign a unique sequence of transaction numbers to journal entries. This would allow for better review of journal entries that are posted, since the reviewer would be able to determine whether a report of journal entries was complete.

REVENUE SHARING

This year's State budget discussion offered the hint of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget comprises that occurred in July saw no increases in revenue sharing over the last several years.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing, (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. The remaining amount of total statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages and larger, urban townships.

The statutory formula sunsets in 2007, so the remaining statutory revenue sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village and township statutory revenue sharing.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

The table below details state shared revenue for the City over the past six years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	189,154	161,127	350,281	-
2002	177,091	162,768	339,859	(10,422)
2003	160,070	165,524	325,594	(24,687)
2004	128,903	163,726	292,629	(57,652)
2005	121,806	167,633	289,439	(60,842)
2006	115,729	170,489	286,218	(64,063)

TRANSPORTATION MATTERS

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the City. It is important to note that major street funds transferred for use on local streets can not be used for construction but may be used for preservation, and these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the Governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as Federal match monies on local road projects. The program requires legislation before it becomes effective.

UPDATE ON BUSINESS TAX REFORM

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth" charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, has been added to the Committee's agenda.

These matters will receive considerable attention going forward and in 2007.

RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for the City of Clio for the year ending June 30, 2010. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So – funding the contribution will actually reduce your long run cost.

MUNICIPAL FINANCE ACT - REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's (December 31, 2006) and is good for one year thereafter. The Downtown Development Authority should also file as well with the same due dates.

We would like to thank Tom Yost, Don Dowell and Shelly King, as well as all of the City of Clio personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Kellie L. Goines